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THE DEMAND AND PRICE SITUATION

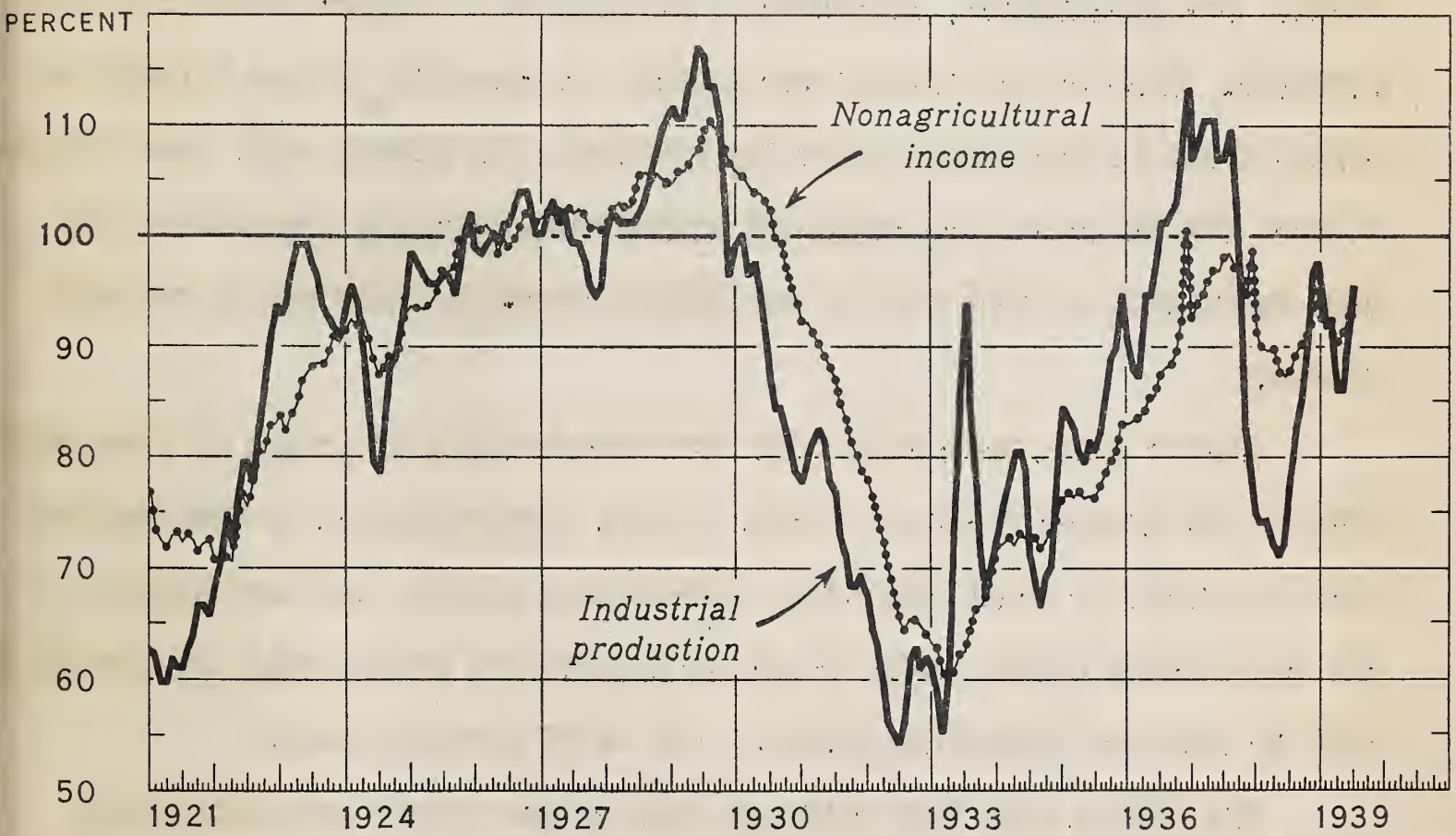
BUREAU OF AGRICULTURAL ECONOMICS
UNITED STATES DEPARTMENT OF AGRICULTURE

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INDUSTRIAL PRODUCTION AND NONAGRICULTURAL INCOME, UNITED STATES, 1921-39

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U. S. DEPARTMENT OF AGRICULTURE NEG. 35638 BUREAU OF AGRICULTURAL ECONOMICS

THE OUTLOOK FOR BUSINESS ACTIVITY IS A VERY IMPORTANT PART OF THE OUTLOOK FOR AGRICULTURE AND FOR INDIVIDUAL FARM PRODUCTS. PRICES AND INCOMES RECEIVED BY FARMERS ARE GREATLY AFFECTED BY CHANGES IN THE CONSUMER DEMAND FOR FARM PRODUCTS, WHICH OCCUR LARGELY BECAUSE OF CHANGES IN CONSUMER PURCHASING POWER OR INCOME. THE LATTER, IN TURN, ARE CLOSELY ASSOCIATED WITH FLUCTUATIONS IN INDUSTRIAL PRODUCTION. THE FARMER, THEREFORE, IS AFFECTED BY THE UPS AND DOWNS OF INDUSTRIAL ACTIVITY AS ARE OTHER BUSINESS MEN.

SUMMARY

Improved demand for farm products during the last quarter of this year was forecast today by the Bureau of Agricultural Economics. Basis is the expansion in industrial activity and consumer incomes in recent months accelerated now by war conditions. Producers were cautioned, however, not to expect a "run-away" market, since supplies of practically all farm products are more than enough for current and prospective needs.

The Bureau indicated that sustained improvement will depend upon actual, not speculative, increases in domestic and foreign demand for farm products. Some of the initial war upsurge in commodity prices already has abated since it has become generally realized, the Bureau said, that "supplies of most raw materials are ample and unused manufacturing capacities more than sufficient to take care of any likely near-term increase in consumer demand."

Recent gains have raised the Government index of prices of farm products to the highest level in nearly a year. Nevertheless, it was reported that the index is still below the 1910-14 base period, and that because of the unfavorable relationship of prices received to prices paid for commodities used by farmers, farm price parity is 20 to 25 percent below.

The Bureau said that although some of the recent commodity price gains may be lost as adjustments are made to actual conditions, "it seems probable that the effect of the European war will be to strengthen both domestic and export demand for farm products in general. The war," it was added, "is likely to decrease European production of some commodities and cause belligerent nations to have less regard than in peace times for the effects of imports on their financial resources or domestic economic programs."

The Bureau issued the following summary of the agricultural situation by commodities, abstracted from its current report on the demand and price situation:

Wheat: The total wheat crop in the United States is only about 50 million bushels larger than probable 1939-40 domestic disappearance, but world supplies are expected to be about 300 million bushels larger than the high record world supplies of 1938-39. Wheat prices in the United States are now above loan values.

Cotton: A sharp rise lifted domestic cotton prices nearly 1 cent per pound between September 2 and 7, approximately canceling the August decline. A sharp increase in cotton cloth and yarn sales in early September, as well as prospective business conditions, are favorable to a continued high rate of United States cotton consumption. Exports have been greatly restricted since the outbreak of war, as have textile sales in European textile centers, but foreign mill activity is believed to have been maintained. The indicated supplies of American and all cotton are little different from the near-record supplies of 1938-39.

Corn: Corn prices advanced about 15 cents per bushel during the first half of September and other feed grains made smaller advances. Corn supplies are much larger than needed to supply domestic requirements, so the price rise seems to reflect an expected increase in European demand for grains and livestock products. Since the indicated 1939 supply is below the marketing quota level, no referendum on marketing quotas will be held this year. The present situation indicates a loan rate on 1939 corn of 75 percent of parity.

Livestock: Prices of all livestock rose sharply during the first week of September following the outbreak of the war, with the advance much greater for hogs than for cattle and lambs. In the second week of September part of this rise was lost. A fairly large seasonal increase in hog marketings is probable for the next few months, and total supplies for the 1939-40 marketing year are expected to be much larger than in 1938-39. Marketings of grain-fed cattle probably will con-

tinue larger than a year earlier during the remainder of 1939 and in early 1940. In view of abundant supplies of feed in the Corn Belt, a strong feeder demand for cattle and lambs is probable in that area this fall. But the number of lambs fed in the Western States may be smaller this year because of short feed supplies.

Wool: Prices of wool in the United States advanced sharply in early September. Domestic mill consumption and imports of wool thus far in 1939 have been considerably greater than last year. Mill activity in foreign countries has increased considerably in recent months.

Butter: Butter prices have increased sharply with the general rise in commodity prices in the first half of September. The rise in butter prices was largely seasonal in nature.

**Poultry,
Eggs:** Supplies of poultry and eggs are expected to continue above a year ago, for the remainder of 1939 and early 1940. But the effect of these larger supplies on prices will continue to be at least partially offset by increased consumer incomes.

Potatoes: Market prices of potatoes declined seasonally during August but advanced sharply and contraseasonally in the early part of September along with price advances on other staple food products, occasioned by the outbreak of European war.

Fruits: Market prices of apples, pears and grapes declined seasonally during August, and in early September apples and grapes averaged lower than a year earlier. Prices of most citrus fruits and peaches rose slightly during the month. Citrus fruits averaged slightly higher than a year ago.

Vegetables: Market prices of truck crops in general declined seasonally from early August to early September although prices of a few commodities advanced somewhat, owing to reduced market supplies.

DOMESTIC DEMAND

There was little change in the conditions affecting the domestic demand for farm products in August, but the moderate gains of recent months were well maintained. The war in Europe should not prevent the anticipated further moderate improvement in business activity and consumer purchasing

power during the remainder of 1939; rather, it may result in even greater gains as the possibility of further advances in commodity prices brings buyers into the market for something more than replacement needs.

Industrial production in August held at about the July rate, some 10 percent above the April-May level. A pause of this nature, following the sharp rise of the preceding 2 months, was not unexpected. Current indications suggest a resumption of the advance during September.

The somewhat less cautious buying policies apparent last month, induced by the renewed rise in general business, was replaced by really aggressive buying in many lines in early September. In some instances, particularly cotton textiles and copper, the flood of orders was so great that sellers withdrew prices for a time to better appraise the outlook. As this is written the buying hysteria which followed outbreak of war seems to be subsiding as the realization becomes general that supplies of most raw materials are ample and that unused manufacturing capacities are more than sufficient to take care of any likely near-term increase in consumer demand.

Even without the stimulating effects of inventory accumulation which now appears probable, further moderate advances in industrial activity were in prospect. Steel mill operations have continued to expand and new automobile models are being produced in increasing volume - the low point in output having been reached in the week ending August 19, about 6 weeks earlier than in recent years. In the absence of signs of any general slackening in other lines, the prospects for continued improvement in these two major industries were sufficient grounds for expecting that industrial activity would pass its 1938 peak by winter.

In short, the domestic economic situation, quite aside from influences of the European war, have continued in the direction of further moderate improvement during the next few months. The war influences may add something to the gains which were previously expected.

Looking farther ahead, the influence of foreign developments on world prices of basic commodities and international trade, mentioned last month as containing possibilities of generating more pronounced recovery in domestic business than purely domestic considerations might indicate, are now more definitely in the picture. Certainly we should obtain a larger share of the trade of our Latin-American neighbors, and of other countries where European sources of supply are cut off in whole or in part. The most logical appraisal of the outlook at the moment appears to be: (1) greater recovery in domestic industrial production than had been anticipated during the next few months as inventories are built up in anticipation of advancing prices; (2) some readjustment following this initial spurt, until consumer buying and manufacturing activities can be brought into better balance under the new conditions created by the war and the anticipated increases in export trade can be actually realized; followed by (3) a substantial lift in production predicated in part on a large growth in exports both actual and relative to our total production.

Our exports to Europe alone increased from 1.5 billion dollars in 1913-14 to 3.8 billions in 1916. The total increase in exports, amounting to 3.1 billion dollars, was largely in the form of manufactured products and processed foods. It is estimated that exports of products processed in our factories rose from about 10 percent of the total in 1914 to about 17 percent in 1916 and that an additional million factory workers (whose salaries and wages totaled about 1 billion dollars) were employed to produce these goods. Add to this the unknown number of workers needed to transport the goods and having jobs indirectly dependent on their production, and the stimulating influence of any such substantial increase in exports upon the domestic demand for farm products becomes obvious.

The effects of the present European war on our economy, however, may be quite different in the early stages from that of the World War. In the first place, the long period of uncertainty has resulted in more extensive preparation in advance of present hostilities, and in this respect may shorten the period of adjustment to war time economy in Europe. The belligerent nations apparently are better prepared financially to buy from us now than at the outbreak of the World War, and may be in better position to effect the transfer of goods from this country to Europe. When war broke out in 1914 the trend of production in the United States was downward, whereas recently it has been upward. Memories of eventual rises in prices and business activity during the World War apparently are preventing panicky action which depressed business in the early part of that period, and if not carried to extremes the speculative anticipation of better times ahead may contribute to their actual realization.

Recent developments, therefore, suggest that the outlook for domestic business conditions affecting the consumer demand for farm products in general has been improved, although we may have to pay dearly for this when the war is over.

FOREIGN DEMAND

To within a week of the outbreak of war in Europe on September 1, foreign economic conditions which affect the demand for United States farm and industrial products had continued to improve, stimulated by Government expenditures for armaments. If precedent is any criterion of future prospects the war, if it continues, will eventually increase foreign purchases of our farm and industrial goods. Whereas, the effects on export demand for our farm products of the preceding peace-time recovery had been largely obscured by burdensome supplies of many commodities and by persistent adherence to self-sufficiency programs, the war is likely to decrease European production and make desirable purchases of needed commodities by the belligerent nations without so much regard as in peace times to the effects on their financial resources or domestic economic programs.

The precipitous break in British and French exchange starting about a week before Germany's invasion of Poland ordinarily would tend to curtail purchases from America, since the effect is to increase costs to the importing nations, but urgent wartime needs are expected to obscure largely the effects of this exchange disadvantage.

Though the outlook for export trade has been suddenly changed by the outbreak of war it is of interest to note that the recovery in business in the principal European countries, which are our chief markets both for farm and industrial products, had continued. In France industrial production rose 42 percent between August 1938 and June 1939 to within 10 percent of the all-time peak reached in 1930. On the basis of a 6-percent decline in the number of unemployed receiving benefits between July and August of this year it is evident that recovery had continued. The armament program was chiefly responsible for the gains as evidenced by strength in the mining, steel and engineering industries; but activity in some of the consumption goods industries has also surged forward and there has been some improvement in building.

In the United Kingdom business activity declined slightly in July, according to the Economist index, but of the individual series used in the index more advanced than declined; and prospects, except for war, were considered as favoring further expansion in the autumn. Furthermore, with production limits about reached in steel and many branches of the engineering industry and with labor shortages evident in textiles, import markets were receiving an increasing share of the nation's business.

Now that additional man-power in the United Kingdom and France will be required for actual military operations import markets will be relied upon to supply goods which otherwise would have been produced domestically. These countries have large gold reserves which may be drawn upon in making purchases abroad -- over 5 billion dollars -- as well as nearly 3 billion dollars in American investments and large investments in other countries.

Apparently there will be no extreme shortage of ocean tonnage, at least during the first part of the war. Nevertheless, increased demand for, and greater risks involved in, shipping no doubt will serve to raise ocean freight and insurance rates, and the relative advantage of the United States in supplying the requirements of some of the belligerent nations will be present in some degree now as it was in the World War, although possibly to a lesser extent.

Our exports of crude foodstuffs rose from 137 million dollars during the year ending with June 1914 to 421 million dollars in the calendar year 1916, but there was a decline in cotton exports. From 1913 to 1916 the increase in the portion of farm income furnished by exported products was only from 15 to 17 percent. By far greater benefits accrued to farmers through the stimulation of domestic sales induced in part by a 200 percent increase in exports of processed industrial and food products leading to widespread gains in employment and payrolls among industrial workers.

It should be recognized that the effects of war on export demand will vary quite materially as between the different farm products, with some commodities being adversely affected and others benefited. Supplies of many farm commodities are more ample now than they were in 1914, and production

in competing exporting nations is considerably greater. Thus, even though European demand for farm products may be increased as a result of the war, the effects need not be similar in degree to those of the World War, because of differences in supply conditions and other aspects of the situation.

WHOLESALE PRICES

The outbreak of war in Europe has stimulated a broad buying movement in raw materials markets and consequent sharp price advances. Thus far the rise largely reflects increased purchases by domestic buyers and speculators who anticipate further price advances. The immediate response of prices, both wholesale and retail, to the outbreak of war, is in contrast with their behavior when the World War started. In 1914 there was a small temporary rise in prices, but the sharp rise did not begin for more than a year.

The recent rise in raw material prices — both agricultural and industrial — began in late August. The Annalist cyclical index of raw material prices advanced 13 points from early to mid-September. And the Bureau of Labor Statistics sensitive index of wholesale prices of 30 basic commodities, which had been moving within a narrow range from mid-July to late August, rose from 56 percent of the 1926 level on August 31 to 67 percent on September 12. On the other hand, the Bureau of Labor Statistics index of wholesale prices of all commodities (813 price series) rose only 3 points in the week ended September 9, to 78 percent of the 1926 level. This is equivalent to 114 percent of the pre-war average, and the highest since September 1938.

Prices of some processed goods, such as metal products and textiles, are already responding to the upswing of raw material prices. Early price advances of this nature are likely to be confined largely to products for which raw material costs represent an important part of production costs.

The ratio of wholesale prices of farm products to nonagricultural products for the week ended September 9 was 80 percent of the pre-war level, the same as for the corresponding week a year earlier. One month earlier the ratio was only 75 percent of pre-war.

The combined index of wholesale prices in nine foreign countries which take about 80 percent of our agricultural exports was practically unchanged from May to July at 87 percent of the 1924-29 level. Current price increases in many foreign countries, however, probably have brought about an upturn in the composite index beginning with that for August or September.

PRICES RECEIVED AND PAID BY FARMERS

Market prices indicate that the general level of prices received by farmers in mid-September is considerably above the level of mid-August, and about the same as a year earlier. Sharply increased prices of grain, meat animals, dairy products, and eggs have more than offset some declines in prices of fruit and a few minor commodities in the last month.

The general level of prices received by farmers in mid-August was 88 percent of the pre-war average, compared with 89 percent in July and 92 in August 1938. Prices of most farm products declined from July to August, although some pickup occurred in prices of butterfat, eggs, and wool.

The preliminary estimate of prices paid by farmers for commodities in August was 119 percent of the 1910-14 average, compared with 120 in July and 122 in August 1938. The lower figure for August reflected a slight decline in prices paid for commodities used in farm production -- chiefly for feed. The August index of prices paid by farmers for feed alone was 86 percent of the 1910-14 average, compared with 92 in June and 89 in August 1938. The ratio of prices received to prices paid by farmers was 74 percent of pre-war in August, the same as in July and one point less than the ratio a year earlier.

FARM INCOME

Income from farm marketings increased much more than seasonally from July to August but was still somewhat below the income received in August last year. Government payments in August were larger than the \$15,000,000 in August 1938 so that total farm income, including Government payments, in August may not be much less than in August last year.

The greater than usual seasonal increase in income in August was due almost entirely to the increase in marketings of cotton from the new crop, as marketings in June and July were unusually small and were confined largely to the redemption of cotton placed under loan. Income from wheat also increased more than seasonally, but marketings of corn were unusually low in August and income declined sharply whereas there is usually some increase in marketings. Income from other crops made about the usual seasonal change from July to August.

Income from livestock and livestock products in August was slightly lower than in July but the decline was less than usual. Income from hogs, eggs, and butterfat was lower than a year earlier but income from most other livestock items was about the same as a year ago.

With the sharp advance in prices of several of the more important farm commodities from August to September, income from farm marketings in September is also expected to increase more than usual and may equal or exceed the \$744,000,000 received in September 1938. Closing of the tobacco markets will affect the situation, since ordinarily a large volume of tobacco is sold in September.

WHEAT

Domestic wheat prices, after being unsettled the last half of August, advanced sharply in early September influenced by the outbreak of hostilities in Europe, and reduced offerings by United States farmers and shippers. Wheat

prices in United States markets continue strong in comparison with prices in other countries, as a result of a United States crop only moderately above annual domestic disappearance, a large proportion of wheat being placed for loan, and the continuance of the export-aid program in 1939-40. Wheat prices in the United States are now generally above the loan values. Subsidy payments to exporters amounted to around 35 cents per bushel the latter part of August, at which time the price of United States No. 1 Dark Hard Winter wheat at Liverpool was 55 to 60 cents per bushel. The amount of the subsidy payment represented the spread that United States export wheat prices were above export parity. Since that time the grain markets in Liverpool have been closed, and the subsidy temporarily withdrawn. The payments per barrel of flour exports, although reduced somewhat, have been continued.

A total wheat crop in the United States of 736 million bushels is now indicated. The present indication includes a 5 million bushel increase in spring wheat production as of September 1 compared with that of August 1. The August indicated winter wheat production of 551 million bushels was unchanged. This total is about 50 million bushels larger than the likely 1939-40 disappearance and provides an opportunity to reduce our wheat stocks on July 1, 1940 below those on July 1939 to the extent exports exceed 50 million bushels. The wheat carry-over on July 1, 1939 was moderately large at 254 million bushels.

Prospective world wheat supplies 1/ for the year beginning July 1, 1939 are now indicated to be about 300 million bushels more than a year ago. Increases in carry-over stocks July 1, 1939 more than offset the decreases in production. World stocks of old wheat 1/ on July 1 were estimated at about 1,200 million bushels, or about 600 million bushels more than a year earlier. World wheat production 1/ is now estimated at about 4,280 million bushels, or about 300 million bushels less than in 1938. The crop in the Northern Hemisphere 1/ is estimated to be about 3,760 million bushels, which is about 250 million bushels more than the harvest of 1938. On the basis of weather conditions to date, a reduction of about 50 million bushels is indicated for the Southern Hemisphere countries.

RICE

Rough and milled rice prices have advanced sharply since late August, in response to the declaration of war in Europe. Producers were reported to be firm holders of rough rice and millers advanced both rough and milled rice prices. Extra Fancy Blue Rose milled rice in New Orleans during the week ended September 12 was quoted at \$4.90, the highest level in recent years. This compares with \$2.90 for the week ended August 28. The price paid to Southern producers for rough rice was the highest since early in 1936.

1/ Exclusive of the U.S.S.R. and China.

The 1939-40 supply of rice in the Southern States, consisting of the August 1 carry-over and the indicated production on September 1, was estimated to be 13,502,000 barrels compared with 13,059,000 barrels last year. The September 1 stocks of rice in California, together with the indicated production, indicate that the total California supply on October 1 may not be greatly different from the supply a year earlier. The total United States supply of rice for 1939-40, on the basis of these indications, may exceed the unusually large supplies of the past two years.

Exports of rice in 1938-39 were 315 million pounds (equivalent to about 3,150,000 barrels of rough rice) as compared with 312 million pounds during 1937-38, and were the largest since 1928-29. Shipments to insular possessions during the past marketing year totaled 288 million pounds (equivalent to 2,880,000 barrels of rough rice), or 44 million pounds below the shipments in 1937-38.

COTTON

With the outbreak of the war and the sharp advance in prices of other commodities and securities, a sharp rise lifted domestic cotton prices nearly 1 cent per pound between September 2 and 7. This approximately canceled the loss which occurred during August. The rapid price rise in early September was accompanied by large domestic sales of unfinished cloth and sharply higher cloth prices. Domestic mill consumption was unusually high in August and early September. Exports were slightly higher in August than a year earlier, but much lower in the first half of September as a result of the outbreak of the war and its adverse effects on shipping, commercial transactions and exchange rates.

After having declined from 9.50 cents on August 1 to 8.49 cents on September 2, the price of Middling 7/8 inch cotton in the 10 markets recovered practically all of this decline during the 3 business days ending with September 7. Between September 8 and 13, the average in these markets ranged between 8.93 and 9.28 cents. These prices were about the same to slightly higher than in the second and third weeks of August and compare with an average of 8.10 cents in September last year. Since the inauguration of the export subsidy and the outbreak of war, prices of American cotton at Liverpool have fluctuated materially in relation to prices in domestic markets. On September 8 Middling Fair Staple at Liverpool was 2.46 cents per pound above the New Orleans spot price compared with an average margin of $1\frac{1}{4}$ cents in July and August and a 10-year average of 1.85 cents. This is attributed largely to the effects of the war on shipping, the depreciation of the pound sterling, and the disruption of commercial transactions. As of September 8 the Liverpool price of American cotton was considerably lower relative to most other growths than in July and early August, but were still unusually high relative to those growths.

Domestic mill consumption, of 628,000 running bales, in August was the highest consumption for the month on record except in 1927 and was one-eighth larger than in August last year. The sharp increase in cloth and yarn sales in

early September and the advance in cotton textile prices, along with prospective domestic demand conditions are favorable to the maintenance of a relatively high level of domestic cotton consumption during the weeks immediately ahead.

Exports of American cotton during August, of 219,000 running bales, were slightly higher than exports in August last year. In the first 13 days of September, however, they were equal to only 71 percent of the unusually small exports of a year earlier, due largely to the adverse effects of the European war.

Up to the first of September, cotton consumption in Europe was apparently being maintained at a fairly high level, although American cotton constituted an unusually small proportion of the total. In Great Britain, France, and some of the smaller countries, cotton consumption was running at considerably higher levels than a year earlier. Since the outbreak of war it is quite likely that mill activity in Europe has been well maintained even though commercial business has been paralyzed.

World supplies of all cotton for the 1939-40 season are now tentatively estimated at a little less than the near-record supply of approximately 50,400,000 bales in 1938-39. The indicated world supply of American cotton is a little in excess of 26 million running bales compared with about 25,400,000 bales last season and an average of 22 million bales for the 10 years 1928-37.

FLAXSEED

The average price of No. 1 Flaxseed at Minneapolis for the week ended September 9 was \$1.77 per bushel, or an increase of 22 cents per bushel over the price for the week ended September 2. The price of flaxseed at Buenos Aires advanced only 8 cents per bushel during this period, so that the margin between these prices increased to 63 cents, which compares with an average margin of 68 cents between these prices for the 1938-39 marketing year. A narrower margin between foreign and domestic prices seems probable during 1939-40 than in 1938-39, in view of the prospective increase in European demand and the comparatively large domestic supply relative to foreign supplies.

The domestic crop was indicated, on the basis of September 1 conditions, to be 17.2 million bushels, the largest crop since 1930. The total United States supply of flaxseed for 1939-40 is estimated to be 19.5 million bushels compared with 10.4 million bushels last year. In view of this larger domestic supply it is probable that a smaller quantity of flaxseed will be imported during the present marketing year than in 1938-39. Last year 25.6 million bushels of flaxseed were crushed, about 18.7 million bushels of which were imported.

The world supply of flaxseed was estimated to be somewhat smaller on August 1 than on that date a year earlier. Most of this reduction occurred in

Argentina, where supplies were estimated to be 10 million bushels smaller than a year ago. Slightly smaller supplies were also reported in Uruguay and India. These reductions in supplies in the Southern Hemisphere were only partly offset by larger supplies in the United States and Canada.

CORN AND OTHER FEED GRAINS

The weekly average price of No. 3 Yellow corn at Chicago advanced from 45.4 cents per bushel for the week ended August 26 to 61.2 cents per bushel for the week ended September 9. In this same period the prices of oats and barley advanced about 8 cents per bushel. September future prices of these grains made similar advances from August 26 to September 7, but since then part of this gain has been lost. Advances in the price of these grains reflect a prospective increase in demand for grain and livestock products that may result from a continuation of the present European conflict.

The domestic corn crop was indicated to be 2,523 million bushels on the basis of September 1 conditions, or 63 million bushels larger than was indicated on August 1. Some improvement was also indicated for other feed grain crops. The total supply of all feed grains (including production of corn, oats, barley, and grain sorghums, October 1 corn stocks, July 1 oats stocks, and June 1 barley stocks) is now estimated at 112 million tons or an increase of 2 million tons over the supply indicated on August 1, and 1 million tons above the total supply last year. The supply per grain consuming animal unit will be around .83 tons compared with .88 tons last year and .78 tons during the period 1928-32.

The announcement was made by the Secretary on September 13 that a referendum on marketing quotas would not be necessary this year, since the indicated 1939-40 supply is below the marketing quota level of 3,030,000,000 bushels. On the basis of present preliminary figures, a loan rate of 75 percent of parity will be available to eligible producers in the commercial corn producing area, unless the price of corn on November 15 is above 75 percent of parity.

Exports of corn have been small during the last few months, and the exports for the 1938-39 marketing year may total only about 33 million bushels. The present conflict in Europe may not have a material effect on the exports of corn as grain, since any increase in European demand would probably be reflected in larger shipments of livestock and livestock products. During the World War the annual exports of corn amounted to less than 2 percent of the total supply, and the increased demand for corn came through heavy exports of pork rather than any increase in the quantity of corn exported.

HOGS

After advancing moderately in the last half of August, hog prices rose sharply in early September. The marked rise was chiefly the result of speculative sentiment brought about by the outbreak of the European war, although

hog marketings were reduced somewhat. The rise in prices from September 4 through September 6 probably was the greatest for any similar period on record, and it was very uneven among the several large markets. At Chicago, the average price of butcher hogs reached about \$9.25 on September 6, whereas the average was \$6.65 for the week ended September 2 and \$5.90 for the week ended August 12. Following September 6 prices of hogs declined materially, but up to September 12 a considerable part of the rise of previous weeks had not been lost.

Federally inspected slaughter of hogs during August totaled 2,792,000 head, compared with 2,778,000 in July and 2,467,000 head in August of last year. The percentage of packing sows in the total slaughter supply increased seasonally during August as did the average weight of all purchases. Inspected hog slaughter at 27 centers for the week ended September 8 was considerably smaller than that of a week earlier; part of the reduction resulted from fewer number of slaughter days, Labor Day being September 4, but farmers in many areas apparently withheld hogs from market because of the war situation.

A fairly large increase in hog marketings is expected to take place during the coming fall and winter months. Total slaughter supplies of hogs in the 1939-40 marketing year, which begins October 1, are expected to be materially larger than in the current marketing year.

Present prospects indicate that consumer demand for hog products in late 1939 and early 1940 will be somewhat stronger than a year earlier, or during the current summer. Should the war continue for any considerable period it may be that a stronger foreign demand for American hog products, especially pork, will develop.

CATTLE

Prices of all kinds of cattle rose sharply during the first week of September following the outbreak of the war in Europe. The top price on fed steers at Chicago reached \$12.00, the highest since early June. As speculative demand partially subsided and marketing increased during the second week of September, prices of most kinds of cattle declined, although a considerable portion of the rise of the previous week was retained.

After some weakness in early August, prices of all grades of slaughter steers were fairly steady until the last week of that month, when a moderate advance occurred. For the week ended September 9 the average price of good grade steers at Chicago was \$10.50 compared with \$9.10 for the first week of August and \$10.15 a year earlier. Prices of stocker and feeder steers weakened slightly during the first 3 weeks of August, but advanced in late August and early September along with prices of slaughter cattle.

Cattle slaughter under Federal inspection during August totaled 823,000 head compared with 782,000 head in July and 848,000 in August last year. Calf slaughter in August was smaller than a year earlier as in most other months thus far this year.

Because of the sharp increase in cattle on feed in the Corn Belt States this year compared with last, slaughter supplies of grain-fed cattle during the remainder of 1939 and in early 1940 are expected to be larger than during the same period a year earlier. Total slaughter supplies of cattle, however, are likely to continue smaller during the remainder of 1939 and in early 1940 due to a reduction in the number of grass-fat steers, cows, and heifers to be sold for slaughter.

Marketings of cattle from the Western States may be somewhat larger this fall than last because of dry weather and short feed in most of the range area during the summer. But in view of the strong feeder demand the proportion of western cattle sold for immediate slaughter may be less than usual.

LAMBS

Prices of lambs rose sharply in early September, but the rise was much less pronounced than that for hogs. Some advance in lamb prices also occurred in the last week of August following a period of moderate weakness in the first 3 weeks of that month. The average price of good and choice slaughter lambs at Chicago for the week ended September 9 was \$10.25 compared with \$8.85 a week earlier and \$8.15 2 weeks earlier.

The increase in slaughter supplies of sheep and lambs from July to August was less than usual; inspected slaughter of sheep and lambs in August totaled 1,457,000 head, only about 58,000 more than in July and about 146,000 less than in August last year. Although the lamb crop this year was only slightly smaller than last, lambs have not made good gains in the Western States because of drought. A larger proportion of western lambs are in only feeder flesh this year than last, and this is an important factor that caused August slaughter to be smaller than that of a year earlier.

Total shipments of sheep and lambs from the Western sheep States probably will be larger this fall than last. With feed conditions unfavorable in most of the western sheep area, the number of ewe lambs retained for breeding will be less than last year, and the number of lambs fed in western feeding areas in the coming season is not likely to be as large as last season.

With abundant feed supplies in most of the Corn Belt, some increase in the number of lambs fed in that area this fall and winter is probable. Feeder shipments of sheep and lambs into the Corn Belt States in July and August were about 75 percent larger than those of July and August last year.

WOOL

After remaining largely unchanged in August, wool prices in the domestic market advanced 8 to 15 cents a pound, scoured basis, in the first

week of September, following the outbreak of the war. Prices of graded fine staple combing territory wools reached as high as 90 cents a pound, scoured basis, at Boston in the week ended September 8 compared with about 74 cents a month earlier and about 70 cents a year earlier.

The 1939-40 wool sales in Australia have been canceled, following arrangements for the purchase of the entire Australian clip by the British Government. A committee has been appointed to direct the appraisal and shipment of Australian wool to England and other countries to be designated by the British Government. Australia produces about one-half of the wool clip of the Southern Hemisphere.

Mill consumption of apparel wool in the United States declined seasonally in July, but was 20 percent higher than in July 1938. Consumption on a grease basis in the first 7 months of this year was 60 percent larger than in the same months last year and was almost 20 percent larger than the 7-month average for the 10 years 1928-37. Mill orders for wool fabrics on July 1 were about 40 percent larger than a year earlier.

Domestic supplies of raw wool on August 1 were smaller than a year earlier and were estimated to be smaller than the 5-year (1933-37) average. The carry-over of wool into the 1939-40 season in the Southern Hemisphere was much smaller than in 1938 and probably was below the June 30 average for the years 1933-37. Supplies of wool in Continental Europe and the United Kingdom, however, are believed to be relatively large.

The domestic wool manufacturing situation will be influenced in coming months by war conditions in Europe. While domestic production of wool is now 50 percent larger than in 1914-17, production usually is not sufficient for domestic requirements for apparel wool. The United States usually imports considerable quantities of apparel wool as well as practically all the carpet wool consumed in this country.

The World War in 1914-18 resulted in marked activity in the domestic wool manufacturing industry, and in a sharp increase in imports of apparel wool into the United States. Net imports of such wool in 1914-16 were almost 4 times as large as in 1911-13, and imports continued large in 1917 and 1918. Exports of manufactured wool goods increased sharply from 1914 to 1916, but declined in 1917 and 1918. At the end of the war, however, stocks of raw wool were very large in most countries.

BUTTER

Butter prices have increased sharply with the general rise in commodity prices which started at the end of August with the news of war in Europe. In the case of butter, however, the rise up to the middle

of September was to a large extent seasonal. The seasonal rise in butter prices usually starts in September and reaches a peak in December. Over long periods of time the changes in butter prices have been much the same as for the general level of prices of agricultural products. In periods of rise, however, dairy products tend to lag.

In the World War period our exports of butter were much larger than in the pre-war period 1910-14. However, even with the sharp rise, the foreign outlet was relatively unimportant. In 1916, when butter exports reached the peak for the war years, they were less than 2 percent as large as domestic production. At the present time, world production of butter is probably about 50 percent greater than in 1914. The most significant increases in production since 1914 have been in the Southern Hemisphere. If shipping is available, world butter exports might not be curtailed as much as in the World War.

Domestic production of butter in July was 3 percent less than a year earlier, but, except for 1938, about as high as ever reported for July. It seems probable that production will continue relatively high for at least several months.

Consumption of butter in July was about 10 percent larger than a year earlier. The increase in consumption is in contrast with the decrease in production. The into-storage movement was much less than a year ago. While some of the increase in consumption in July was due to the distribution of butter for relief, there was a decided increase in distribution through regular trade channels. Apparently, consumer expenditures for butter in July were slightly higher than a year earlier, and after allowing for seasonal changes higher than in any of the preceding 4 months.

The Dairy Products Marketing Association purchased about 12,000,000 pounds of butter in August. Since the rise in prices occurred, however, purchases have been greatly reduced.

POULTRY AND EGGS

Larger supplies of poultry and eggs than last year continue to feature the current situation. However, the effect of these larger supplies on prices has been, and will continue to be, at least partly offset by increased consumer incomes. Farm prices followed their usual seasonal change between July 15 and August 15 but continued well below last year and the 1928-37 average. The recent advances in wholesale egg prices have been largely seasonal.

Market receipts of dressed poultry during the remainder of 1939 and early 1940 will probably continue larger than in the corresponding weeks of the 1938-39 marketing season because of the larger number of hens and young chickens on hand and the large increase in turkey production. As a result of the larger marketings, it is likely that storage stocks of frozen poultry on January 1 will exceed those of a year earlier.

Storage stocks of shell and frozen eggs are an important factor affecting fall and early winter egg prices. On September 1 stocks were 10 percent above a year ago. Current production of eggs during the fall of 1939 will probably continue slightly larger than a year earlier.

On the basis of present indications of feed supplies, it appears that the ratio between feed and egg prices during the remainder of 1939 may continue less favorable to producers than last year. As a result, farmers may market a larger proportion of their hens and pullets between now and the end of the year than they did in the same period a year ago. The effect on winter egg production of larger hatchings this year than last and larger numbers of hens now on farms may be partly offset by these increased marketings. Laying flocks on January 1, 1940, therefore, may be only a few percent larger than on January 1, 1939.

Since exports and imports of poultry and eggs have never represented more than a few percent of domestic production, it is not expected that the war will have much direct effect on the poultry and egg industry. However, if the general price level should change rapidly, feed costs may be high in relation to poultry and egg prices during most of the period of increasing prices and low during most of the period of declining prices.

FRUITS

Market prices of apples, pears and grapes declined seasonally during August, and in early September apples and grapes averaged lower than a year earlier. On the other hand, prices of most citrus fruits and peaches rose slightly during the month, and the citrus fruits averaged slightly higher than a year ago.

Fruit crop prospects as of September 1 were little changed from a month earlier, as growing conditions during August were favorable for the development and maturity of fruits in most important producing areas. Prospects for the apple crop increased slightly while that for pears declined. Indicated production of peaches and grapes is about the same as on August 1, but prospects in the Northwest improved for prunes for all purposes. The indications point to a slightly smaller crop of dried prunes in California.

Harvesting and marketing operations for most fruits are well under way. Although there has been an increase in recent years in the quantities of fruits used for commercial canning, particularly for the manufacture of canned juices, the supply of fruits available for fresh consumption has also increased sharply. In view of the prospect that the tonnage used for canning this season probably will be no larger than the recent normal and that exports of fresh fruits probably will be somewhat smaller than in recent years, it is likely that the supply of fruits for fresh consumption during the balance of the 1939-40 marketing season will be close to the largest on record. Also because of large carry-over stocks, total supplies of dried fruits available are expected to be very large.

POTATOES

Market prices of potatoes declined seasonally during August but advanced sharply and contra-seasonally in the early part of September along with the price advances of other staple food products occasioned by the outbreak of war in Europe. At New York City prices of potatoes other than Western Varieties averaged \$1.40 per 100 pounds sacks in the first week of September as compared with \$1.28 the previous week, \$1.33 a month earlier and 79 cents a year earlier. At Chicago similar varieties averaged \$1.26 per 100 pounds in the first week of September, a rise of 28 cents from the previous week, and compares with \$1.17 in early August and \$1.04 in early September 1938.

Production of potatoes in the late States (excluding California early crop), the principal source of market supplies from now until April, is indicated as of September 1 to total 291 million bushels or about 7 million bushels more than indicated a month earlier and about 4 million bushels more than was produced in these States in 1938. The increases in prospects during August occurred in the 10 Central and 12 Western late States. As compared with the 1938 crop the present prospect is for slightly increased late potato supplies in the Eastern States but slightly smaller supplies in the Central States.

Marketings of the crop is just getting started in the principal late States and the carlot movement is increasing. Most of the crop is harvested during the next 2 months, however, and a large portion is usually stored for the winter and early spring market.

TRUCK CROPS

Market prices of truck crops in general declined seasonally from early August to early September although the prices of a few commodities advanced somewhat owing to reduced market supplies. Snap and lima beans, carrots, lettuce and green peas showed the most significant price rises.

Indications as of September 1 point to larger late market crops of beets, celery, lettuce, onions and sweetpotatoes but smaller late crops of cabbage, both domestic and Danish types, carrots, green peas and tomatoes. Ordinarily a portion of some of these late crops are stored for the winter market and it is now indicated that the stored supplies this season of celery, onions and sweetpotatoes will be relatively large while those of Danish type cabbage and carrots probably will be smaller than last year. Plantings of vegetables in the Southern States and California for the winter market are starting under fairly favorable conditions.

Business statistics relating to the demand for farm products, specified periods

Year and month	Nation- al income 1/	Non- agri- cul- tural income 3/	Indus- trial pro- duction 3/	Build- ing con- tracts awarded 3/	Factory employ- ment 4/	Income of in- dus- trial workers 5/	Foreign indus- trial pro- duction 6/	All commod- ity prices 7/	Retail food prices 8/	Prices re- ceived by farmers 9/	Prices paid by received farmers 10/	Ratio of prices to prices paid 11/
Base period	1929	1924-29	1923-25	1923-25	1923-25	1924-29	1923-25	1910-14	1913	1910-14	1910-14	1910-14
1929	100	108	119	117	106	107	136	139	166	146	153	95
1930	93	101	96	92	92	88	124	126	158	126	145	87
1931	80	88	81	63	78	67	111	107	130	87	124	70
1932	63	69	64	28	66	46	97	95	108	65	107	61
1933	58	64	76	25	73	49	107	96	105	70	109	64
1934	66	73	79	32	86	61	116	109	117	90	123	733
1935	71	78	90	37	91	69	124	117	127	108	125	86
1936	82	90	105	55	98	80	132	118	130	114	124	92
1937	88	96	110	59	106	94	144	126	135	121	130	93
1938	82	90	86	64	87	72	141	115	125	95	122	78
1938 -												
Apr.	81	90	77	52	86	69	140	115	126	94	125	75
May	80	88	76	51	83	68	141	114	125	92	125	74
June	81	87	77	54	82	67	141	114	127	92	124	74
July	81	88	83	59	82	68	135	115	127	95	123	77
Aug.	82	89	88	66	86	72	134	114	124	92	122	75
Sept.	82	90	91	78	89	75	141	114	125	95	121	79
Oct.	82	91	96	82	90	76	143	113	124	95	121	79
Nov.	83	92	103	96	90	78	147	113	123	94	121	78
Dec.	84	95	104	96	91	80	144	112	125	96	120	80
1939 -												
Jan.	84	92	101	86	90	80	146	112	123	94	120	78
Feb.	84	92	99	73	91	78	148	112	122	92	120	77
Mar.	84	92	98	69	91	78	150	112	121	91	120	76
Apr.	83	90	92	67	91	74	152	111	121	89	120	74
May	83	91	92	63	90	75	154	111	121	90	120	75
June 11/	84	93	98	63	91	79	158	110	121	89	120	74
July 11/	84	93	102	67	90	80		109	121	89	120	74
Aug. 11/										88	119	74

NOTES:

- 1/ Department of Commerce monthly and annual index numbers of "national income paid out", 1929 = 100. (Monthly adjusted for seasonal variation). Comprises the payments to or receipts by individuals in the form of wages, salaries, interest, dividends, entrepreneurial withdrawals, and net rents and royalties, direct relief disbursements, adjusted service payments to veterans (soldiers' bonus) and benefit payments under the Social Security program. Monthly index described in Survey of Current Business, October 1938. Revised October 1938.
- 2/ Industrial Relations Division of the Agricultural Adjustment Administration, 1924-29 = 100, adjusted for seasonal variation. Veteran bonus payments are included in 1931 and 1936 but are insignificant in other years. Nonagricultural income, without bonus payments, is 86 for 1931 and 88 for 1936. Revised November 1938.
- 3/ Federal Reserve Board index, 1923-25 = 100, adjusted for seasonal variation.
- 4/ Bureau of Labor Statistics index, 1923-25 = 100, without seasonal adjustment. Revised September 1938.
- 5/ Bureau of Agricultural Economics, 1924-29 = 100, adjusted for seasonal variation. Includes factory workers, railroad and mining employees. Revised October 1938.
- 6/ Bureau of Agricultural Economics, 1923-25 = 100, adjusted for seasonal variation. Weighted average of index numbers of industrial production for nine foreign countries - United Kingdom, Franco, Germany, Italy, Japan, Canada, Belgium, Czechoslovakia, and Poland. Series was revised from January 1920 through July 1935 in July 1937 - and from August 1935 through August 1937 in November 1937.
- 7/ Bureau of Labor Statistics index, 1910-14 = 100, without seasonal adjustment.
- 8/ Bureau of Labor Statistics index, 1913 = 100.
- 9/ Bureau of Agricultural Economics, August 1909 - July 1914 = 100.
- 10/ Bureau of Agricultural Economics, 1910-14 = 100.
- 11/ Preliminary.

